

INSTITUTIONAL ENVIRONMENT OF THE LABOUR MARKET BETWEEN SEPTEMBER 2010 AND SEPTEMBER 2011

IRÉN BUSCH

&

ZSOMBOR CSERES-GERGELY

INTRODUCTION*

The recent financial crisis has also had a fundamental impact on labour markets. European countries were forced to re-think and often reform their labour market institutions with flexibility and security in mind, and all this amidst shrinking financial resources. In this context it is crucially important to give a clear and accurate overview of the policy tools that can influence the operation of the economy. Apart from these global events, the fact that Hungary has one of the lowest employment rates within the European Union also makes the overview of labour market institutions most timely. Low employment is a major obstacle to economic growth.

This chapter continues the tradition of the Hungarian Labour Market Year Book that has reviewed changes in the labour market institutions each year, however this time it is presented in a slightly different format. We have created a structure that is closely related to the labour market and its forces; measures influencing prices, quantities and costs.

Market prices (most importantly wages) are determined by transfers, taxes, contributions, alternative incomes are influenced by available insurance-based (unemployment allowance, pension) or means-tested payments (for example social benefit type assistance, children's benefits), costs are determined by certain types of assistance (for example towards the cost of commuting or childcare provision) and services (such as human services provided for unemployed people or job search services). The structure of the labour market and the relationships that are formed with the labour market are shaped by contractual possibilities, transaction costs and mechanisms of dialogue between social partners. The effectiveness and stability of the above institutions are determined by policy structures and policy-making mechanisms.

We classify employment policy measures according to the classification used by Eurostat in its *Labour Market Policy* (LMP) database. In addition categories from the LABREF database of the European Commission's Directorate General for Economic and Financial Affairs (DG ECFIN) are also used here (*European Commission*, 2005). These include broader – labour market related – policies such as tax and social policies that are strongly inter-related. Overall, we can distinguish labour market and labour market related policies.¹ Our choice

* We would like to thank Zsuzsa Blaskó, Tibor Bors Borbély-Pecze, Ágnes Hárs, Judit Hervay, Judit Nagy, László Neumann, Ágota Scharle, András Simonovits and Andrea Takácsné Tatos for their helpful comments. We also thank colleagues at the Employment Office for their help in putting this chapter together. For any errors or inaccuracy the authors bear sole responsibility.

1 To some extents these categories are arbitrary because "everything is related to everything" so most policy measures have an employment effect. However considering the model of labour supply and labour demand we can identify a limited number of parameters that influence decisions: prices, quantities, costs, market structures and uncertainty around demand and supply decisions. We are interested in all of those policy measures that directly influence one or more of these.

The classification of employment policy measures according to the Labour Market Policy Database of Eurostat

has been influenced by two factors. First, so far there has been no comprehensive classification in Hungary, which is probably explained by the limited interest in this issue (see also *Chapter 7 of In Focus* on the evaluation of active labour market policies in Hungary). Second, we wanted to prepare the overview in a comparable format based on some existing practice that makes it possible to continue the overview even if policies change considerably.

We aim to give a balanced overview of each issue, however there are topics that will be discussed in more detail; these are key employment policy measures that are likely to have a large impact on the Hungarian labour market in their revised form. There are some categories and sub-categories in the international classification that do not have any corresponding policies or subsidies either because they no longer exist or have never existed in Hungary. These will be mentioned only briefly.

Beside the overview of employment policies another aim of the study was to indicate government expenditure in this area. However, this was impossible because we could not consolidate expenditure from European Union co-financed projects – that are highly important – with other labour market policies into a single structure. Without this, detailed financial data would be misleading.

It should be emphasised that this study does not aim to provide an evaluation of policies or in other words an assessment of whether they had an effect on the labour market or not, and whether they are adequate (achieve the intended aims and are efficient) or not. We provide an overview of policy measures that under certain conditions *can* have an effect on the labour market based on some theoretical considerations *or* empirical results *or* the perception of policymakers.

Nevertheless the evaluation of specific policy measures is very important and to facilitate this we briefly present their possible mechanism of action, highlight any existing evaluations and attempt to point out any differences between them and the measures discussed in the evaluation studies that might modify its effect. The interested reader can then make the judgment. Considering that this is the first time the chapter is presented in this format, we also provide a brief overview of the situation before the changes. The system and policies are presented according to the situation in September 2011 and we acknowledge that there might be changes by the time the study is published. However, only policies that have actually been rolled out are presented, policy proposals and bills that have not been voted by the Parliament are not discussed here. For each measure we indicate when they come into force. The starting point of the study is September 2010.

We aimed for maximum clarity in the wording and tried to keep the length of study within reasonable limits. We also aimed to provide the most accurate picture possible. This meant that some compromises were necessary: we do mention all important policy changes, however briefly. Some of the text is presented in bullet points that hopefully will facilitate clearer understanding. We considered four questions:

Four questions to consider when analysing employment policy measures

– Answering the question *How does it work?* we provide the theoretical basis of the policy measure: who does what and why. This does not address implementation or efficiency and it is assumed that the measure serves its intended purpose. This question is not asked for labour market related but not direct employment policies because it would be too far-reaching and divert us from our topic.²

– For the question *What is the impact on employment?* we present general information on the effectiveness of the measure based on empirical results. It is important to highlight that for labour market policies the employment effect is the primary, intended aim, but the intended aim of labour market related policies is usually something else and the employment effect is not necessarily intended even if it is sometimes very strong.

– Under the heading *Situation in September 2010* we present the status quo on the 1st of September, 2010 according to the criteria outlined below.

– For the question *Changes between September 2010 and September 2011* we provide an overview of the most important changes. Considering the limitations of space this description does not aim for completeness for various reasons. On the one hand the system of financial assistance and measures is very fragmented in Hungary and presenting all relatively minor (in terms of access and expenditure) interventions would be a disproportionately huge task both for the authors and the readers of the chapter. Therefore where necessary we were selective both in terms of the employment effect and the scope of interventions. Second, there are so many rules for every intervention that presenting all of them would have made the already long text even longer (three or four times its current length) and thus very difficult to read. Third and most importantly our aim was not to present the legislation in detail, this can be found elsewhere, but to give an overview of the full range of measures and their most important characteristics. Therefore readers who are interested in the detailed rules for each measure should refer to the original legal texts.

Under the heading *Main legislation* we present the main laws and regulations governing the given area and any legal amendments down to the level of ministerial regulations and any other, publicly available, information on implementation. The main legislation is available free of charge on the Internet. Our main sources were the Hungarian Gazette (Magyar Közlöny; www.mag-yarkozlony.hu) and the Official Journal of the European Union, but there are other useful sources such as the on-line collection of current legislation that is available free of charge to anyone (<http://mkogy.complex.hu>). Legislation under the level of a ministerial regulation is not readily available. They are either available in a summary format for end users or can be obtained from the relevant authorities. Together with the exact reference to legislation we also provide the web addresses (where they exist) of relevant authorities to facilitate internet-based search.

Sources of main legislation

² In most cases this is not very different from the original aim, but sometimes it is. For example studies analysing the original documents from the introduction of child care allowance clearly point it out that its introduction was motivated by the “peaceful” withdrawal of female workforce from the labour market. Today the same action is often justified with children’s developmental needs.

COMPONENTS OF LABOUR MARKET AND LABOUR MARKET RELATED POLICIES

*Labour market policy
– all employment policy
measures*

Labour market policies are public interventions in the labour market that explicitly aim to improve the efficiency of the market, address disequilibria and typically selectively favour particular groups on the labour market. The term labour market policy is equivalent to the term employment policy commonly used in Hungary in its broadest meaning and it includes both active and passive policies as well as labour market services.

The “common denominator” of labour market policies of the EU and OECD member states is the *Labour Market Policy (LMP)* database, created under the direction of the Eurostat. This provides comparable data on expenditure and participants in labour market policies in each member state. The methodology of the database distinguishes three types of interventions that are termed 1. *services*, 2. *measures* and 3. *supports*. Based on section 1.2 of *European Commission* (2006, p. 6) these are defined as follows including the mixed interventions:

Services refer to labour market interventions related to the job-search activity of participants and where participation usually does not directly result in a change of labour market status (but often does indirectly). Services also cover functions of the Public Employment Service (PES) that are not directly linked to jobseekers. This includes placement and other services for employers, administrative functions, and other activities delegated to the PES.

Measures are labour market interventions where the main task of participants is not job-search and where participation usually (but not necessarily) results in a change in labour market status. These include activation programs such as training, wage subsidy and different forms of public works.

Supports refer to interventions that provide financial assistance, directly or indirectly, to individuals *for labour market reasons* or which compensate individuals for their disadvantage on the labour market. These include unemployment benefits such as the jobseeker’s allowance and benefit or the means-tested income maintenance assistance.

Mixed interventions are those schemes that employ more than one intervention – that might be in different groups or categories.

The target groups of labour market policy include the unemployed, employees at risk (those who are in employment but are at risk of involuntary job loss due to the economic circumstances of the employer, restructuring, or similar) and the inactive. The government delivers labour market policies primarily through specialist institutions that might include a public or private (or mixed) Employment Service and market-based service providers. Interventions have been classified according to the categories of LMP as follows.³

*Target groups of labour
market policies*

³ For the detailed methodology see KSH (2009).

*Classification of labour market policy interventions by type of action**Services*

1. Labour market services

Measures

2. Training
3. Job rotation and job sharing
4. Employment incentives
5. Supported employment and rehabilitation / integration of people with reduced work capacity
6. Direct job creation
7. Start-up incentives

Supports

8. Out of work income maintenance and supports
9. Early retirement

Mixed interventions (complex programs)

Labour markets are also influenced indirectly by measures other than labour market / employment policies – for example by the tax system that influences the price of labour. If the government aims to promote the labour market inclusion of a group characterised by low employment levels then it might reduce the tax burden on their work. In most countries demand for unskilled labour as well as their work motivation is relatively sensitive to wage costs. In this context the government might increase employment by the appropriate calibration of the tax system; reducing the tax burden on lower wages. The definition of these indirect measures is based on a simplified, but still comparable, version of the LABREF database. Definitions follow Part 3 of *European Commission* (2005) and supplementary areas are defined as follows.

Policy measures with an indirect effect on the labour market

Labour market related policy measures, excluding LMPs

10. Labour taxation
11. Other transfers
12. Job protection – contractual arrangements
13. Old age and disability pensions system – disability supports
14. Wage bargaining and wage regulation
15. Migration and mobility related measures
16. Management and evaluation of employment policy

Labour taxation. This includes personal income tax, social security contributions paid by employees and employers, coverage and rates.

Other transfers. These include transfers that influence the cost and opportunity cost of work. The first includes means-tested benefits such as the housing assistance and travel to work schemes (e.g. those targeted at commuters) and the second includes assistance with child care.

Labour taxation

Other transfers

Job protection and contractual arrangements

Job protection and contractual arrangements. These cover changes in the regulatory environment of work contracts, particularly rights and responsibilities related to different types of contracts, permanent and temporary contracts, as well as rules governing dismissal of workers. We also include working time related measures here.

Old age pension, disability pension and disability assistance

Old-age and disability pension – disability assistance. This covers the availability of old-age and disability pensions, their starting rate and increments, the conditions of early retirement.

Wage regulation

Wage bargaining and wage regulation. Includes the regulation of wage bargaining and any direct or indirect wage regulations that influence the level of wages nationally or regionally.

Mobility

Migration and mobility related measures. These include rules on the employment of foreigners, selective immigration policies and the formal recognition of qualifications gained abroad. It also includes measures related to internal mobility, such as measures influencing the share of rented housing and home ownership.

Employment policy institutions

Institutions of management and evaluation of employment policy. These include institutions that make and implement policies (the relevant ministry and particular units, the National Employment Service and its agencies, the National Development Agency or more recently the Ecostat Government Centre for Impact Assessment) and any changes related to them.

Labour market related policies might be – and if used consciously they are – tuned to the needs of specific target groups, but as a general principle they cover the whole of the population.

LABOUR MARKET POLICY MEASURES

The foundations of the Hungarian labour market policy were laid down by Act 4 of 1991, commonly known as the Employment Act. The policies set out by the Act are commonly referred to as employment policy measures in the Hungarian technical terminology.

Services

1. Labour market services

A) Services of the National Employment Service

Labour market integration, matching

How does it work? Labour market services help the labour market integration of the unemployed and other job seekers, and help employers to recruit and select their workforce. Services thus partly address the lack of information and partly enhance the adaptability of parties helping the matching of job seekers and employers.

Addressing lack of information and information asymmetry

What is the impact on employment? An efficient information provision service can improve the lack of information and information asymmetry and

thus increase the flexibility of the labour market. This can directly or also indirectly increase employment by reducing wages through increased competition. Information services need to be provided on an on-going basis but for automated systems the cost of maintenance can remain well under the initial cost of investment. There are no empirical studies on the labour market impact of information services in Hungary. International results were reported for example by *Calmfors* (2004) and *Martin and Grubb* (2001). They found that information services had a positive effect but this could not be separated from sanctions and statutory functions.

Situation in September 2010. In Hungary labour market services can be accessed via the job centres and the website of the National Employment Service (NES) in two main forms:

a) *Information services:* are open services for job seekers providing ad hoc information and referral to opportunities for work, training and other forms of assistance; it also includes job brokerage services for employers.

b) *Client services:* Cover provision of individualised case management services (for example intensive counselling and guidance, job search assistance and personalised action plans) and follow-up for jobseekers. It also includes financial supports provided to jobseekers (such as the cost of travel to job interviews, other job search related costs etc.).

Information services and client services might cover various areas, for example the provision of labour market and employment information; job, career, job search and rehabilitation advice, local (area) employment services. The most important information service is job brokerage. It can be provided as self-service with direct access to information (i.e. websites such as <http://www.munka.hu>, <http://epalya.hu> and its more recent version <http://eletpalya.munka.hu>, or <http://eures.europa.eu>), or through specialist human services (e.g. job search clubs, guidance etc.). These can be provided on an individual basis or for groups of jobseekers. Information services can be provided independently or as part of guidance, a job fair, job brokerage or referral for training. They can be provided on job centre premises or on external premises such as *rehabilitation information centres*, *work information centres*, *job advisors* or the EUROFIT network that provides international work information, *employment information points* and the EURES network, the European job mobility service, European employment services. The network of career services provides advice for choosing and changing career.⁴

Some of the services for jobseekers and employers are provided jointly by the NES and its partner organisations or are contracted out to accredited service providers.⁵ The NES does not have a statutory role in most services, however in the case of job brokerage it does because jobseekers can lose their eligibility for jobseeker's allowance if they do not accept suitable job offers.

Changes between September 2010 and September 2011. There were no substan-

Provision of information and individualised services

4 In the first phase of SROP 2.2 project the procedures of *Lifelong Guidance* were prepared. The National Career Orientation Portal has been operational since September 2010 that is the integrated career information portal of lifelong career guidance (<http://eletpalya.munka.hu/>).

5 The priority project SROP 2.6.1 *Establishing the system of service provider accreditation* ended on December 31, 2010. The partners of the project together with representatives of independent employment service providers developed definition and standards for 48 labour market services, defined accreditation criteria and procedures. More details can be found on the website of the project (<http://www.tamop261.hu/>)

tial changes during this period; the statute of the NES confirmed the activities of the NES in the provision of labour market services and all services were available.

Main legislation

The scope of labour market services are set out by Act 4 of 1991, Article 13/A, paragraph 2. The types of services are listed in MoE Ministerial Regulation no. 30/2000. (15. 11). Job brokerage is delegated to the NES by Article 7 of the Government Regulation no. 315/2010. (27. 12).

New legislation: Government Regulation no. 315/2010. (27. 12) on the Statute of the National Employment Service and the Employment Office (Official Journal, issue 9, 2011. February 8. pp. 1065–1068.

On-line resources: <http://www.munka.hu/engine.aspx?page=allaskeresoknek>, <http://www.munka.hu/engine.aspx?page=munkaadoknak>, <http://www.tamop261.hu/>.

B) Other activities of the National Employment Service

How do they work? Activities other than the provision of services by the employment service include administration, and they are often statutory or related to the management and implementation of policies at the local level. Accordingly they are concerned with the efficient management and implementation of policies.

What is their impact on employment? Besides the provision of services, other activities of the employment service can also help re-employment of the unemployed if implemented efficiently. For example using client profiling to provide the most adequate services to different unemployed clients (e.g. in terms of education, work experience). Also adequate monitoring of job-search activity and sanctions for non-compliance can also be very useful – see Card, Kluve and Weber (2010) for more on this. There is limited information on the impact of other activities. The potential impact of their reform was examined by the evaluation study of the PES modernisation (Cseres-Gergely & Scharle, 2010). It was found that the development of services might have contributed to the positive impact of the modernisation; however it was not possible to isolate its impact. Micklewright and Nagy (2005) experimented with the implementation of stricter sanctions in Hungary. Their results showed that increased sanctions – that were still considerably less stringent than sanctions used in some other countries – had a more limited impact in Hungary than elsewhere.

Situation in September 2010. The three areas of the employment service's other activities are as follows:

1. *The administration of labour market measures:* the management / co-ordination of employers and services providers engaged as direct recipients in these measures, other activities related to the management and implementation of labour market measures – e.g. planning, co-ordination, monitoring, evaluation,

Administrative and statutory roles

Client profiling, monitoring and sanctions

Administration, coordination, monitoring, evaluation, decision-making

decision making, etc., and any other functions directly related to the provision of labour market measures but which cannot be attributed to a specific measure.

2. *The administration of labour market supports*: covers activities related to the administration and payment of supports and / or the supervision by the NES of other bodies that undertake the payment and administration functions. Activities include for example the registration and monitoring of beneficiaries (where not directly linked to on-going monitoring of job-search activity), and the payment of benefits, validation of claims, etc.

3. *Other services / activities*: covers all other services, activities and general overheads of the public employment service which are not covered in any other category of the LMP database. For example vocational health assessment, wage guarantees and issuing work permits for foreign workers.

Important stages in the individual case management of clients are the initial assessment, drawing up a jobseeker's action plan based on the needs and characteristics of the individual jobseeker, assessing the entitlement and eligibility for financial support and payment of support, the monitoring of job-search activity and the closure of the case or referral for social assistance (currently public works, income maintenance assistance or regular social assistance). The jobseeker's agreement was binding for those claiming financial supports from the PES until December 31, 2010 and those who breached the agreement lost their eligibility for the allowance/assistance. After signing the agreement jobseekers were required to attend interviews with their job centre advisor on a regular basis but no less than once every three months and report on their job-search activity. Not only jobseekers, but other clients of the job centre (such as people with reduced work capacity) were also required to sign a binding agreement.

Changes between September 2010 and September 2011. As of January 1, 2011 the seven independent regional job centres were transformed into 20 job centres and incorporated into the county government offices. An important change in the organisation of job centres after September 2011 was that about half of the staff has been dealing with the administration of public works.

The jobseeker's agreement has no longer been a requirement since January 1, 2011, nevertheless it is still useful (although not mandatory) to plan and record each step of the cooperation. Those claiming rehabilitation allowance are still required to sign a rehabilitation agreement.

Main legislation

Activities related to registered unemployed (registered jobseekers) are set out by Act 4 of 1991 (Employment Act).

New legislation: Government Regulation no. 315/2010. (27. 12) on the Activities of the National Employment Service. Its budget is set out by Act 169 of 2010 on the 2011 budget of the Republic of Hungary. The statutes for the new job centres were published in the Official Journal, 2011, issue 9. Ministry

Job search plan, jobseeker's agreement – compulsory until the end of 2010

Seven instead of twenty job centres, shorter period with no compulsory requirements

for National Economy Regulation (MfNER) no. 2/2011. (14. 1) on registering and de-registering as a jobseeker.

On-line resources: <http://www.munka.hu>.

Active labour market policies (Lmp measures)

2. Training programs

Aim: increasing employment prospects

How do they work? Training programs aim to improve the employability of participants by providing new skills that are sought after on the labour market and increase the likelihood of finding or keeping a job, or increase participants' earnings potential

What is their impact on employment? Training can have an impact on employment if its curriculum is relevant and the participants are capable of learning new skills. In this case training can have a lasting positive impact on the employability of participants and possibly their earning potential which might help to increase employment without increasing public expenditure. *Kluve* (2010) argued that training programs are less effective forms of active measures if they do not improve considerably the employability of participants. The long term analysis of training programs by *Card, Kluve and Weber* (2010) slightly changed this picture by showing that adequately targeted training can have a positive effect, although this develops over a longer period of time. *O'Leary* (1998) analysed the effect of training programs in Hungary over a decade ago, and a similar analysis was presented by *Csoba, Nagy and Szabó* (2010) more recently (see also *Chapter 4 of In Focus*). *Galasi, Nagy and Lázár* (1999) also addressed the effectiveness of training programs. Results from Hungary showed that training programs slightly improved the employability of participants; however none of the studies followed the participants as long as *Card, Kluve and Weber* (2010) to find significant positive labour market effects.

Situation in September 2010 (July – August 2010). Training supports can be claimed by jobseekers and employees at risk and the economically inactive. Entitlement and eligibility for the support is assessed by the job centre. The support can take various forms such as income maintenance assistance (or income support for those in work), the reimbursement of training and exam costs and expenses related to accommodation, food and travel.

Training can be aimed at improving the employability of unemployed or help employees to remain in work. Training can be provided by public or private providers.

Changes between September 2010 and September 2011. There were no changes in the structure and availability of training in this period, however a number of important decisions were made for the future.

Major institutional changes

The network of training institutions are to be re-organised. The nine independent regional training centres were merged into the Budapest Centre for

Labour Market Interventions (BCLMI) and thus ceased to exist as of December 18, 2011. The name of BCLMI changed to István Türr Training and Research Institute as of June 30, 2011. The Institute replaced the previous public agencies and took over its activities in the areas of training, regional and social development and public works.

With the reallocation of European Union resources (see the description of other measures and complex programs) a greater emphasis has been placed on training programs within Priority 2 – Improving adaptability – of the Social Renewal Operational Program (SROP). As opposed to programs under Priority 1 these are not managed by the employment service but the Managing Authority of the Human Resources Program.

Main legislation

Labour market training is regulated by Article 14 of Act 4 of 1991 (Employment Act) and Article 1 of Ministry of Labour (MoL) Regulation no. 6/1996. (16. 07.).

New legislation: Training centres are regulated by the Ministry of Public Administration and Justice (MoPAJ) Regulation no. 3/2011. (11. 02) and Article 6 of MoPAJ Regulation 19/2011. (24. 06) on its amendment. The action plan for Priority 2 of SROP is published in Government Regulation no. 1013/2011.

On-line resources: http://www.munka.hu/engine.aspx?page=allaskeresoknek_kepzes, http://www.munka.hu/engine.aspx?page=munkaadoknak_kepzes, <http://www.tkki.hu>.

3. Job rotation and job sharing

How does it work? These measures support the (re-)employment of the unemployed or people from other target groups by dividing the working hours of already existing jobs and thus allowing them to work.

What is the impact on employment? This measure can increase the employment level if the employment of additional workers on the same job does not result in the job loss of others. Job sharing is only possible if the job is suitable for sharing, the workers are motivated to job share and they are satisfied with their wages. If the wage adjustment cancels out the effect of increased employment then job sharing is not an effective employment policy measure (*Layard, Nickell and Jackman* 1991). The impact of job sharing is less clear-cut on smaller and dense labour markets as well as rigid wage structures.

Situation in September 2010. No job sharing and job rotation labour market measures existed in Hungary before the end of 2010.

Changes between September 2010 and September 2011. As of January 1, 2011 employers pay only 20% social security contributions instead of the 27% for eligible employees. To be eligible for the support the wages should be no more than 200% of the statutory minimum wage and the employee should be returning from child care leave. Further conditions are that the job should be

Criterion of success: re-employment without crowding out others

Reduced social security contributions for job sharers

shared between the returning employee and the worker who had been hired for their temporary replacement (or a new worker) and the working time should be shared equally between them (20 hours for each). These conditions should be met for at least one year. The support can be paid for up to three years and it cannot be combined with other supports or reliefs.

Main legislation

Article 8/B of 'Start' Act (Act 123 of 2004)

New legislation: Act 123 of 2010 on taxation.

4. *Employment incentives*

How does it work? The aim of employment incentives is to support the employment of unemployed people or other target groups or help to ensure the continued employment of workers at risk of involuntary job loss by covering some or all of the labour costs or reducing other costs associated with their employment.

What is the impact on employment? The main impact of employment incentives is that it is less costly for employers to recruit individuals from the target group that might help to increase employment levels. The other impact, although indirect but more important in the long run, is that it makes it possible for the target group to enter the labour market which might not be possible otherwise due to their disadvantaged situation. During the course of employment the employee and the employer can get to know the skills of the employee and thus it might also have a lasting impact after the end of the support. The effect of employment incentives is largely dependent on market conditions and their actual regulation, particularly its targeting and "crowding-out" effect. O'Leary (1998) analysed the effect of wage subsidy schemes in Hungary over a decade ago and a similar analysis was carried out more recently by Csoba, Nagy and Szabó (2010) (see also Chapter 4 of *In Focus*). The authors concluded that the significant positive effect of wage subsidies was not primarily due to the design of the programs but to the fact that the participants had better than average employment prospects. To date there has been no empirical analysis of job retention support schemes in Hungary. The OECD (2009) expected that the measures used after the 2008 crisis would have a limited impact.

Situation in September 2010. There are many types of employment incentives; the two main types are recruitment incentives and employment maintenance incentives. The measures include support towards the cost of labour (wage subsidy, wage and contributions subsidy, contribution reliefs including the *Start*, *Start-extra*, *Start-plus* and *Start-region* schemes as well), supports towards certain forms of working (for example tele-work), and supports reducing to the cost of working (different travel-to-work schemes). The measures are managed by job centres where the claims should also be submitted. However incentives can also take an indirect form (such as the *Start-card*).

Decreasing contributions for beneficiaris

Subsidies to encourage hiring and retention of jobs

Changes between September 2010 and September 2011.

- Starting from 2011 the *Start-region* was phased out. This could be used as part of the *Start-extra* scheme for recruiting workers claiming income replacement assistance. Supports awarded prior to January 1, 2011 are paid until their expiry.

- As of January 1, 2011 part-time workers can also take part in *Start*-schemes.

- Restrictions were introduced on the entitlement conditions for the *Start-extra* scheme in 2011: apart from the long-term unemployed only people aged over 50 years with a basic level education and who had been registered as job-seekers for at least three months prior to enrolment in the scheme were entitled to take part.

- Applications for new *Start-plus* and *Start-extra* cards had to be submitted at the latest by December 31, 2011 and employers are eligible for contribution relief until December 31, 2013.

Main legislation

The rules of employment incentive schemes are set out in Articles 11 and 18 of Act 4 of 1991 (Employment Act), Articles 11 and 18 of MoL regulation no. 6/1996. (16. 07), Government Regulation no. 39/1998. (04. 03) and Act 123 of 2004 (“Start” Act).

New legislation: Government decree no. 1013/2011. (19. 01) on the Action Plan of the Social Renewal Operational Program for 2011–2013 that includes the detailed outline of Project SROP 1.2.1; Act 105 of 2011 on the Regulatory Alignment of Certain Labour Legislation and other Related Acts; Act 106 of 2011 on Public Works and the Amendment of Public Works and other Related Legislation; MfNER regulation no. 27/2010. (31. 12) on the Amendment of Certain MfNER Regulations in Relation to the Establishment of Government Offices.

On-line resources: http://www.munka.hu/engine.aspx?page=ma_tamogatas, http://www.munka.hu/engine.aspx?page=ak_tamogatasok, http://www.afsz.hu/engine.aspx?page=full_tamop121

5. Sheltered employment and rehabilitation

How does it work? These measures aim to develop the existing work capacity of people with reduced work capacity by providing adaptations and adequate services and facilitate their return to work or continued employment.

What is the impact on employment? The primary aim of rehabilitation is to develop existing skills and competencies of people with reduced work capacity that can prepare them to move on to work. It can also help to combat discrimination arising from prejudice or lack of information. After successful rehabilitation people can take up work on the open labour market or in special settings. If implemented adequately, rehabilitation can also increase the independence of people with reduced work capacity, who can perform at the same

Rehabilitation can promote the independence of people with reduced work capacity

level as non-disabled workers, and this can increase the level of employment in the long run without increasing public expenditure. *Scharle* (2011) compared different forms of sheltered employment and rehabilitation in Hungary and found that the wage and other subsidies of sheltered workshops do not significantly improve the employment prospects of participants while the rehabilitation services of non-profit providers do.

How did it work previously? The distinction between sheltered employment and rehabilitation in Hungarian practice is as follows:

*Physical adaptations,
workplace mentors*

Sheltered employment: covers those sheltered work measures that have the aim of preparing people for integration into the open labour market: for example the physical adaptation of the workplace, both building and equipment, or the provision of mentors or other specialist assistants.

Rehabilitation: covers measures providing guidance, training and development that help participants to adjust to their disability or condition, develop competencies that prepare them to move on to work, and find and retain a suitable job and workplace.

*Wage subsidy and
vocational rehabilitation
subsidy*

Two types of organisations can provide sheltered employment in Hungary: sheltered workshops and accredited rehabilitation employers.⁶ It is a requirement for both types of organisations that a large proportion of their workforce has a reduced work capacity. The government provides two types of support towards the cost of rehabilitation: wage subsidy that can cover from 40 to 100 per cent of the wage and contributions, and assistance to work placement, job retention, vocational rehabilitation and the provision of assistants at the workplace. The other type of rehabilitation support is a cost reimbursement: the partial reimbursement of allowable and approved expenses directly related to the employment of people with reduced work capacity that the employer would not have incurred with the employment of non-disabled workers. This can be claimed by sheltered employers only. Job centres make the decision about the payment of rehabilitation wage subsidy.

*Priority projects are
implemented by local
offices of job centres*

Rehabilitation is supported via European Union programs and ad hoc grant programs for non-profit organisations. The SROP priority project 1.1.1 *Promoting the rehabilitation and employment of people with reduced work capacity* provides services and support to help labour market (re-)integration and job retention. The priority project is implemented by the public employment service. The process of rehabilitation is closely related to the payment of rehabilitation allowance that is paid for those with a 50–79% loss of work capacity. This is discussed in more detail under heading 13 *Old age and disability pensions – disability supports*.

Changes between September 2010 and September 2011. The accreditation of employers of people with reduced work capacity was carried out by the Employment Office since its introduction (on November 1, 2005). As of January 1, 2011 this, together with other activities related to the payment of public sub-

⁶ Accredited employers are those that have received a special accreditation to employ people with reduced work capacity. There are different levels of accreditation (basic or rehabilitation, and high level or conditional).

sities, has been the responsibility of the National Rehabilitation and Social Office (NRSO) together with other public bodies.

Main legislation

Government regulation no. 177/2005. (02. 09) on Public Subsidies for the Employment of Workers with Reduced Work Capacity; Ministry of Employment and Labour (MoEL) regulation no. 15/2005. (02. 09) on the Activities of the Employment Office in Relation to Rehabilitation; Government regulation no. 176 /2005. (02. 09) on the Accreditation of Organisations Employing Workers with Reduced Work Capacity and the Inspection of Accredited Employers; and MoEL regulation no. 14/2005. (02. 09) on the Procedure and Requirements of the Accreditation Process.

New legislation: Government regulation no. 121/2011. (15. 07) Amending Government Regulation no. 177/2005. (02. 09) on Public Subsidies for the Employment of Workers with Reduced Work Capacity; Government regulation no. 332/2010. (27. 12) Amending Certain Government Regulations in Relation to the Activities of the National Rehabilitation and Social Office; Ministry of National Resources (MoNR) regulation no. 46/2011. (15. 07) Amending MoEL Regulation no. 15/2005. (02. 09) on the Assessment of Eligibility for Public Subsidy for the Employment of Workers with Reduced Work Capacity; MoNR regulation no. 25/2010. (30. 12) Amending Certain Ministerial Regulations in Relation to the Activities of the National Rehabilitation and Social Office.

On-line resources: http://www.munka.hu/engine.aspx?page=ma_tamogatas&switch-content=ma_tamogatas_megvaltozott_munkakepz_091026&switch-zone=Zone1&switch-render-mode=full; http://www.orszi.hu/html/pdf/tajekoztatok/Megvaltozott_munkakepesseguek_foglalkoztatasanak_ramogatasa_2011.pdf

6. Direct job creation

How does it work? These programs create new jobs, usually of community benefit or socially useful, in order to create employment opportunities for the long-term unemployed or people who are otherwise struggling to find work. The jobs are usually in the public or non-profit sector, but projects of community interest or similar within the private sector may also be eligible and no distinction should be made. Therefore this covers all forms of public works schemes – municipal and communal public works as well as centrally organised public works programs.

What is the impact on employment? The primary employment effect of direct job creation is that workers in non-market jobs are considered employed and count towards the employment rate. Nevertheless the indirect and possibly the most important effect of direct job creation might be that it provides an opportunity for people to enter the labour market. Labour market integration

Jobs are created mainly in the public sector and in the non-profit sector

Criterion of success: labour market integration

Road to Work: public works programs

Four pillars of the new public works program

New type of employment contract: public works contract with public works wage

is facilitated by adequate services and supports as well as the nature of work – among others by providing relevant work experience. O’Leary (1998) analysed the effect of public works schemes in Hungary over a decade ago and a similar analysis was carried out more recently by Csoba, Nagy and Szabó (2010) (see also Chapter 4 of *In Focus*). The *Road to Work Program* was examined by Budapest Institute and Hétfa (2011). None of these studies found a positive employment effect over the studied period.

Situation in September 2010. Until December 31, 2010 the public works scheme Road to Work was in effect. In this program participants were paid means-tested income maintenance assistance if they signed on as jobseekers with the jobcentre and were willing to accept job offers, including public works. There were also some municipal and centrally organised public works projects until the end of 2010.

Changes between September 2010 and September 2011. The previous system of public works was replaced by a completely new system in 2011. A new four-pillar public works program replaced the three types of public works – centrally organised, community and municipal public works. The four pillars are: short-term public works, longer term public works, mobility within public works and nationwide public works programs.⁷ Employers can be – apart from the state – local councils, churches, social cooperatives and some specified businesses (water companies, forest management, national rail network). The program was overseen by the Ministry for National Economy in the first half of 2011, but from July 1, 2011 this was taken over by the Ministry of the Interior. As of September 1, 2011 the regulatory framework of public works were aligned with the conditions of unemployment assistance. A new type of employment relationship was created, the public works contract that removes participants of a public works program from the coverage of labour legislation in many aspects (such as the statutory minimum wage). The previous income maintenance assistance was replaced by the income maintenance assistance.

Different types of assistance are available for public works programs. Assistance can be paid for short- and long-term and nationwide public works program. Public interest agency work is also eligible for assistance if it employs people claiming income replacement assistance and also provides training and mentoring. In these cases the assistance equals to the amount of public works minimum wage. Furthermore, any employer recruiting workers claiming income replacement assistance is eligible for assistance; these workers should be paid the statutory minimum wage and there is also a requirement of continued employment.

Main legislation

The status quo on December 31, 2010 was set out by Government regulation no. 23/2001 on Assistance for Public Works. The financial framework for 2011 was defined by Act 169 of 2010 on the 2011 Budget of the Republic of Hungary.

⁷ The minister responsible for public works can launch pilot schemes for short term, longer term and national public works programs. Pilot schemes are implemented in water management, agriculture, waste management (clearing up illegal waste dumping sites), the maintenance of unpaved roads used for agricultural purposes, road maintenance, winter employment.

New legislation: Rules after January 1, 2011 were laid down by Government regulation no. 375/2010 (31. 12) on Assistance for Public Works; rules after September 1, 2011 were defined by Act 106 of 2011 that also amended a number of other acts such as the Employment Act and Labour Code. Further rules can be found in: Government regulation no. 170/2011. (24. 08) on Wage Setting and Statutory Minimum Wage in Public Works and Government regulation no. 171/2011. (24. 08) on the Amendment of Certain Government Regulations in Relation to Public Works.

On-line resources: http://www.munka.hu/engine.aspx?page=nfsz_kozfoglalkoztatás

7. Start-up incentives

How does it work? Start-up measures provide financial support to promote entrepreneurship by encouraging the unemployed and other target groups to start their own business or to become self-employed.

What is the impact on employment? Unemployed people successfully starting their own business will reduce the unemployed count and increase the level of employment, potentially by employing others. According to the evaluation by O'Leary (1998) business start-up schemes significantly improved the labour market situation of participants. Galasi, Lázár and Nagy (2003) found the highest re-employment rates among participants of business start-up schemes. However results were explained by the more favourable than average characteristics of beneficiaries.

Situation in September 2010. The target group of business start-up measures can include registered jobseekers and people claiming rehabilitation allowance who become self-employed, set up a company or become an agricultural producer.

The assistance can be paid as an interest-free non-repayable capital grant or repayable working capital loan and / or a non-repayable assistance up the amount of the statutory minimum wage and assistance towards the cost of business advisory services.

Changes between September 2010 and September 2011. The measure has been unchanged for years and there were no changes in this period either.

Main legislation

The measure is regulated by Article 17 of Act 4 of 1991 (Employment Act) and Article 10 of MoL regulation no. 6/1996. (16. 07).

On-line resources: http://www.munka.hu/engine.aspx?page=ak_tamogatások.

Business start-up can reduce the number of unemployed

Self-employment as a private entrepreneur, as part of a business corporation or as an agricultural producer

Supports

8. *Unemployment (jobseeker's) benefits*

How does it work? Unemployment benefits and supports aim to compensate individuals for loss of wage or salary through the provision of cash benefits when a person is capable of working and available for work but is unable to find suitable employment. Entitlement to unemployment benefit is normally conditional upon the beneficiary actively seeking work but, in certain cases – for example older workers – the condition may be relaxed.

Shortening the benefit period has only slightly increased labour supply but the financial situation of claimants got significantly worse

What is the impact on employment? People who lose their job usually face a loss of earnings for some months if they are not willing to take up a new job that is less favourable than the one they have just lost. The impact of unemployment benefit is not clearcut: on the one hand it provides out-of-work income that might reduce willingness to work. On the other hand adequate assistance – level and duration – allows more efficient job-search and thus reduces the duration of unemployment, increases employment and leads to better job-matching than in the absence of assistance. *Galasi and Nagy (2002), Micklewright and Nagy (1995), Köllö and Nagy (1995), Wolff (2001)* wrote about the impact of unemployment benefit on employment. These studies showed that shortening the duration of the benefit period did not or only slightly increased labour supply while the financial situation of claimants deteriorated substantially.

Situation in September 2010. There were two types of benefit:

1. *Unemployment assistance:* is paid to (former) workers satisfying criteria for membership in an unemployment insurance scheme. It is often paid only for a limited period.

2. *Unemployment assistance:* is usually paid to workers who either fail to satisfy criteria for membership in an unemployment insurance scheme (have not paid contributions for long enough) or who have exhausted insurance-based unemployment benefit entitlement. Unemployment assistance is normally means tested.

Between November 1, 2005 and August 31, 2011 there were three types of unemployment benefit and assistances. These were primarily insurance-based provisions with some means-tested elements. The public employment service was responsible for the administration of both supports. There was a gradual shift towards the requirement of job search or as a minimum, cooperation with the job centre in the eligibility conditions for social assistance during the 2000s, and this is still the case. Unemployment benefits are directly linked to the current public works scheme; they are managed by local councils that require claimants (apart from people claiming regular social assistance) to cooperate with the employment service. The main characteristics of supports are summarised in *Table 1*.

Table 1: Main characteristics of jobseeker's and working age benefits and supports between September 1, 2010 and August 31, 2011*

Benefit	Entitlement conditions	Minimum	Maximum
Jobseeker's allowance			
Phase 1 (half of the benefit period or up to 91 days)	A minimum of 365 days of contribution payment within the previous four years (employee, self-employed, business owner who has paid business contribution)	Sixty per cent of taxable wage, no less than 60% of the statutory minimum wage applicable on the first day of benefit period: 46,800 HUF / month – 1,560 HUF / day	Sixty per cent of taxable wage, no more than 120% of the statutory minimum wage applicable on the first day of benefit period: 93,600 HUF / month – 3,120 HUF / day
Phase 2 (the remaining benefit period, up to 179 days)	More than 365 days of contribution payment within the previous four years	Sixty per cent of the statutory minimum wage applicable on the first day of benefit period: 46,800 HUF / month – 1,560 HUF / day	
Jobseeker's assistance			
Type 1: 90 days; 180 days for people aged over 50	Entitled to Jobseeker's Allowance for no less than 180 day but has exhausted benefit entitlement and not found a job	Forty per cent of the minimum wage: 31,200 HUF / month – 1,040 HUF / month	
Type 2: 90 days	Has been employed for 200–365 days within the previous four years.		
Type 3: up to old age pension age but no more than five years	Within five years from old age pension age and has received Jobseeker's Allowance for at least 140 days but has exhausted benefit entitlement.		
<i>Income maintenance assistance</i> (until December 31, 2010)	If more than one of the following apply: lack of job vacancies, low income, has exhausted entitlement for <i>Jobseeker's Assistance</i> , available to start work and willingness to cooperate with the job centre and accept suitable jobs in the previous year	The minimum amount of old age pension: 28,500 HUF / month	
<i>Income replacement assistance</i> (Between January 1 and August 31, 2011)	Participation in work or labour market program for at least 30 days, willingness to accept any job.		
Regular social assistance	Reduced work capacity (long term condition, aged 55 or over, lack of suitable childcare for child(ren) aged under 14, other conditions as set out in the regulation) and on a low income (also do not have savings above a certain amount), exhausted entitlement to <i>Jobseeker's Assistance</i> , not required to cooperate with the NES	Dependent on <i>family income</i> but up to the net full-time minimum wage (60,600 HUF / month)	

* The amounts indicate rates applicable on August 31, 2011.

Changes between September 2010 and September 2011. The system of unemployment (jobseeker's) benefits changed radically as of September 1, 2011: the higher amount and benefit period of Jobseeker's Allowance was reduced significantly and there were also changes in the entitlement conditions. Type 1 (paid after Jobseeker's Allowance) and Type 2 (200 days of employment) of Jobseeker's Assistance were phased out. Entitlement conditions to Type 3 assistance changed and now it can be paid only to people within five years of old age pension age.

With the introduction of the new public works scheme social benefits changed too. The Income Replacement Assistance was replaced by *Out-of-work Assistance* with stricter entitlement conditions. The characteristics and rates of new jobseeker's and social supports as of September 1, 2011 are presented in *Table 2*.

Table 2: Main characteristics of jobseeker's and other working age supports as of September 1, 2011

Benefit	Entitlement conditions	Amount
<i>Jobseeker's Allowance</i> (benefit period minimum 36, maximum 90 days)	Paid contributions for at least 360 days within the previous five years, a 10-day contribution period corresponds to one day benefit period.	Sixty per cent of the taxable wage, up to 100% of the statutory minimum wage effective on the first day of benefit period: 78,000 HUF / month – 2,600 HUF / day
Pre-pension Jobseeker's Assistance	Within five years from old age pension age and has received Jobseeker's Allowance for at least 90 days but has exhausted benefit entitlement within the previous three years, has enough qualifying years for old age pension	Forty per cent of the statutory minimum wage: 31,200 HUF / month – 1,040 HUF / day
Out-of-work Assistance	Eligible for working age assistance, except those eligible for regular social assistance. Participation in work or labour market program for at least 30 days, willingness to accept any job and keeps living environment clean if required by the local council	The minimum amount of old age pension: 28,500 HUF / month
Regular social assistance	No change	Dependent on <i>family income</i> but up to the net full-time minimum wage (60,600 HUF / month)

* Entitlement to benefits can be gained through employment, self-employment or business ownership provided they satisfied the requirement of paying unemployment contributions.

Main legislation

Unemployment benefits are set out in Chapter 5 of Act 4 of 1991 (Employment Act) and Article 25.1 of Act 3 of 1993 on Social Administration and Social Provisions. Social assistance is regulated by Act 3 of 1993 and Government regulation no. 63/2006. (27. 03) on Detailed Rules for Claiming, Awarding and Paying Cash and In-Kind Benefits.

New legislation: Act 106 of 2011 on Public Works and the Amendment of Public Works and other Related Legislation.

On-line resources: http://www.munka.hu/engine.aspx?page=allaskeresoknek_munkanelkuli_ellatasok

9. Early retirement

Partial early retirement for those whose chances of re-employment are small

How does it work? These programs facilitate the full or partial early retirement of older workers who are assumed to have little chance of finding a job or whose retirement facilitates the placement of an unemployed person or a person from

another target group. This does not include pension paid to beneficiaries over the standard retirement age as established in the reference pension scheme or pre-retirement pension that is discussed in more detail under *Old age pensions*.

What is the impact on employment? Although conditional early retirement increases the level of inactivity the obligation to replace a retiree reduces unemployment in the short run. This measure has not been studied in Hungary, however analysing the long-term effect of early retirement *Layard, Nickell and Jackman* (1991) concluded that if it is used extensively its short-term effect soon disappears through wage adjustment and unemployment increases again.

Situation in September 2010. This measure no longer exists in Hungary, it is mentioned here as a matter of interest. (Previously the early pension was a similar measure.) Two types of early retirement:

1. *Conditional early retirement:* facilitates the early retirement of older workers and obliges the employer to replace the retiree with an unemployed person or a person from another target group.

2. *Unconditional early retirement:* facilitates the early retirement of older persons and, for those retiring from employment, where there is no obligation for the employer to replace the retiree. Unconditional early retirement supports can only be included when they offer benefits due to unemployment or to job reduction caused by economic measures such as the restructuring of an industrial sector or of a business enterprise.

Changes between September 2010 and September 2011. No changes in this area.

Mixed interventions (complex programs)

Mixed interventions encompass the joint and synergic application of more than one of the above measure and support. They are distinguished from a simple combination of measures by using the potential synergies of different measures that enhance their positive effect.

The main building blocks of mixed interventions are the labour market policy measures presented above; so at least the same measure-specific effects can be expected. However in well-designed mixed interventions the components enhance each other's effects. This might also mean that measures which have no effect or negative effect on their own, might have a positive effect as part of a mixed intervention. Evaluation studies of labour market policies often point out that isolated programs are not effective (enough). However, a common conclusion is that well-designed complex programs can potentially be effective in cases where individual measures failed to achieve any results (*Kézdi and Hudomiet*, 2008). The impact of complex programs in Hungary has not yet been studied.

The most important complex programs of the studied period were co-financed by the EU within the framework of the Social Renewal Operational

*Main complex programs
with EU funding –
SROP*

Program (SROP). These were SROP 1.1.1 (*Promoting the Rehabilitation and Employment of People with Reduced Work Capacity*) and SROP 1.1.2/1.1 (*Decentralised Programs for the Employment of Disadvantaged People in the Convergence Regions / Promoting the Employment of Disadvantaged People in the Central Hungary Region*) and SROP 1.1.3 (*Road to the World of Work*). SROP project 1.1.1 supports people with reduced work capacity, project 1.1.2 and project 1.1.4 supports young entrants, people aged 50 years or over, low-educated and returning to work after having a child / children. The only target group of project 1.1.3 are registered jobseekers receiving social assistance (i.e. income maintenance assistance and later income replacement assistance).

The participants of SROP program 1.1.1 can chose services and supports from a range of measures that support training, work experience and work practice through supported employment, work trials, and self-employment. These are accompanied by supports and services that help the rehabilitation and improve the employability and adaptability of participation. The direct objective of SROP program 1.1.2 is to support the labour market entry of disadvantaged people using mixed interventions that are tailored to individual characteristics and local opportunities and demands. The program started on January 1, 2008 and ended on April 30, 2011. After April 20, 2009 jobseekers who had lost their job as a result of the economic recession also became eligible to enrol. The program was re-launched on May 1, 2011 including new target groups such as people claiming income replacement assistance and out-of-work assistance.

Participants of SROP programs, 1.1.2, 1.1.3 and 1.1.4 can access the whole range of LMP measures, and they are also eligible to receive a reimbursement of their expenditures (e.g. travel costs) to access the selected services. However in some cases there is no synergy between the individual program components.

Main legislation

SROP priority projects 1.1.1, 1.1.2 and 1.1.4 are set out in Government decree no. 1013/2011. (19. 01) on the Action Plan of the Social Renewal Operational Program for 2011–2013

LABOUR MARKET RELATED POLICY MEASURES

Labour markets are also influenced indirectly by measures other than labour market / employment policies – for example by the tax system that influences the price of labour. The definition of these indirect measures is based on a simplified, but still comparable, version of the LABREF database.

10. Labour taxation

Tax system

*Corporate incomes and
labour taxation*

What is the impact on employment? Taxes influence prices on the labour market and they directly reduce the income of the affected parties. The extent of

this is usually dependent on the wage elasticity of labour demand and supply, which is influenced by the distribution of the tax burden between the employer and the employee, as well as the taxes influencing the revenue of the company at the given output. This chapter considers corporate taxes and taxes on labour. Income tax increases the wage cost and reduces the net income that in turn reduces demand for labour. The tax rate on labour and capital influences their share in production. Not only the rate but the structure of income tax is important: the different tax burden on certain groups can influence the structure of the labour supply. As an indirect labour market effect, it can be expected that services financed from tax revenues contribute to the operation of the economy including the labour market, for example by providing adequate infrastructure and public services. If there is no substantive relationship between taxation and public services, then tax morale declines and undeclared employment rises. It is important to note that work can be remunerated in many ways and many of these are exempt from corporation and income tax: for example business income that is not paid out, simplified business tax or the income of some primary producers in agriculture. Many of these are relevant in employment but are not discussed here.

Scharle et al. (2010) considered the effect of taxes on labour supply. The labour demand of the business sector according to industries was discussed by *Kőrösi* (2005) and according to education levels by *Kertesi and Köllő* (2002). *Bakos, Benczúr and Benedek* (2008) analysed the impact of income reporting, however it was not possible to separate the impact of labour supply and under-reporting of income. The general finding of these studies was that both the price and elasticity of labour demand was similar to those in developed market economies, and among high earners a medium wage elasticity of labour supply was measured (that could not be separated from the effect of income reporting).

Situation in September 2010. The corporation tax is payable on the taxable revenue of the company and its rate was 10% up to 250 million forints and 19% above that (effective from July 1, 2010). In economic terms the taxable revenue is the company's profit, the exact definition is laid out in the law. The self-employed and corporations can also opt for the simplified business tax. Its rate is 30% of the turnover and it redeems all other taxes. The tax on saving interests is 20%.

There were two personal income tax rates in 2010 and the taxable income was based on the so-called "semi supergross" income (127% of the pre-tax wage) that is the total amount of the pre-tax wage and employee contributions. Income tax rates and tax-brackets are as follows: 21.6% for an annual income up to 3,937 million forints (17% of the taxable income), and 40.6% including additional tax on incomes above that (32% of the taxable income without that). People earning less than 3,188 million forints per year are entitled to write off 15,100 forints per month from their pre-tax wage which reduces

*Dual-rate taxation
in 2010*

Income tax reliefs and tax credits

the effective lower tax rate. This is gradually reduced up to an annual income of 4,698 million forints, which is the upper limit for this allowance. There are various income tax reliefs, but their extent does not significantly influence the tax burden for the majority of taxpayers.

Changes between September 2010 and September 2011. Corporate tax and income tax changed in 2011. There are still two rates for corporate tax, but the tax bracket for the 10% rate were extended to 500 million forints, and above this the tax rate is 19%. Thus the tax burden of employers with taxable revenue between 250 and 500 million forints nearly halved. The tax on saving interest was reduced to 16%.

There were important changes in the system of personal income tax. First, the two rates were replaced by a single rate that is 20.3% of the pre-tax wage (16% of the taxable income). Moreover, families with children receive considerable tax relief: families with one child / two children can write off 62,500 forints, families with three or more children 206,240 forints per month from their taxable income. The relief can be shared by both parents so it might automatically reduce the tax burden of the second earner just returning to work.⁸ The amount that can be written off the taxable income by lower earners was reduced to 12,110 forints per month and can be used up to an annual taxable income of 2.75 million forints and then it is gradually reduced up to an annual income of 3.96 million forints. Thus, changes have a mixed effect. First, the nominal tax rate was reduced slightly in the previous lower tax bracket and significantly in the previous upper tax bracket. Second, reducing the amount that can be written off the taxable income by lower earners increases their effective tax rate, which ultimately increases their tax burden. Third, the income tax of families with children decreased significantly regardless of the effect of the above changes, and if their taxable income is large enough they might not even have to pay income tax.

⁸ It is important to note that the discount can be used jointly by both parents therefore it does not create a gap between the marginal tax rate of first and second earners (for example parents returning to work after caring for children) over a broad income range.

Apart from changes to taxation, the rules of simplified employment were reviewed too. People who work under the terms of simplified employment need to fill in a tax return form and pay income tax only if they had other sources of taxable income or their total annual income was more than 840,000 forints.

Main legislation

Corporation tax: Act 81 of 1996; personal income tax: Act 117 of 1995

New legislation: Amendment of Tax Law: Act 123 of 2010; Amendment of Simplified Employment: Act 75 of 2010

On-line resources: http://www.apch.hu/adokulcsok_jarulekmertekek/fizetendo_jar

Contributions

What is the impact on employment? Contributions, similarly to taxes, influence prices on the labour market and reduce the income of the affected parties.

Link between contribution payment and services received – motivation

Their effect is similar to that of taxes (see description above). As an indirect labour market effect it can be expected that systems financed by contribution payments help to maintain and improve the work capacity of the population. Also, personalised future entitlements based on contribution payments might enhance willingness to pay compared to taxes as the use of tax revenues is more difficult to trace. However, if there is no clear relationship between contribution payments and the services received, then undeclared work or different employment statuses (business owner, subcontractor, consultancy, simplified employment etc.) become more common, particularly for second jobs.

Situation in September 2010: The rates of employer's and employee's contributions in 2010 are summarised in *Table 3*.

Table 3: Employer's and employee's contribution as a percentage of pre-tax wages

			Per cent
Contributions paid by employers			
Social security contribution	Pension contribution		24.0
	Health care and labour market contribution	Health care services	1.5
		Health benefits	0.5
		Labour market contribution	1.0
Pre-retirement pension contribution*			13.0
Contributions paid by employees			
Pension contribution**			9.5
Health care and labour market contribution	Health care services		4.0
	Health benefits		2.0
	Labour market contribution		1.5

* Twenty-five per cent of the pre-retirement pension contribution is paid by the state budget, therefore employers and self-employed pay only 9.75%. This contribution is paid only by people employed in certain professions.

** Contributions paid by members and non-members of voluntary pension funds are not shown separately.

Source: adapted from nav.hu.

Changes between September 2010 and September 2011. With the reform of the pension system as of January 1, 2011 the previously separate statutory contributions (paid from the pre-tax wage of earners) to the state and private pension pillars were replaced by a single contribution. The rate increased from a combined 9.5% to 10% and contributions paid from other incomes – simplified employment, simplified business tax – increased accordingly too. There were no other changes, previous rates and taxable bands remain in effect.

In a separate reform, the rules of simplified employment changed to allow the payment of a flat-rate contribution – 500 or 1,000 forints per day. If somebody only works in simplified employment, they are not insured but they qualify for a pension, health provision for work-related accidents and unemployment assistance.

Single pension contribution

Main legislation

The pension system, including payment of all types of contributions and eligibility for private pension are set out in Act 80 of 1997, the simplified business tax is set out in Act 120 of 2005 on simplified contribution payments.

New legislation: pension reform: Act 100 of 2010 on the Freedom of Choice of Pension Funds; Act 101 of 2010 on the Amendment of Certain Laws on Private Pension Contributions; simplified employment: Act 75 of 2010; Changes in Contribution Rates: Act 123 of 2010 on the Amendment of Tax Law and Accounting Law.

On-line resources: http://www.apch.hu/adokulcsok_jarulekmertekek/fizetendo_jar

*11. Other transfers**Means-tested social assistance*

What is the impact on employment? Means-tested social cash benefits reduce labour supply in two ways. First, they provide an income without work; although this is a disincentive to work but it is in accordance with their aims. However, their perverse effect is that they impose a high tax on earnings around the means testing limits and can lead to welfare trap – for more on this see *Semjén* (1996) and *Cseres-Gergely and Scharle* (2008). Social transfers that influence prices or can only be spent on certain goods interfere with individual choice that might also be related to the labour market. This distortion can be explicit (for example cooked meal vouchers can increase demand for cooked meals), a direct side effect (for example instead of the provision of social housing supporting house building and home ownership might reduce geographical mobility) or an indirect side effect (for example if transport capacities are limited the universal and unlimited free travel of old age pensioners can create obstacles for travelling to work).

Situation in September 2010. The number of social benefits in Hungary is very high – there are approximately 350 different types of assistance available (see *Cseres-Gergely et al.*, 2009). These are typically limited in scope and they have a moderate labour market impact. Two main types of transfers that have significant impact on the labour market, child care benefits and regular social assistance – increasingly becoming integrated into the unemployment assistance system – are discussed separately.

Changes between September 2010 and September 2011. There were no significant changes in minor transfers, but changes in housing assistance might be worth highlighting. Previously housing assistance could only be used to pay for winter fuel but as of September 1, 2011 it can also be used to pay for rent, utility bills and other housing related costs.

Main legislation

Act 3 of 1993 on Social Administration and Social Provisions.

Direct and indirect effects of social transfers

New legislation: Act 171 of 2010 Amending Certain Social, Child Protection, Family Benefits and Disability-Related Acts.

Child care benefits

What is the impact on employment? The labour market effect of cash benefits – similarly to other social assistance – reduces labour supply in the target group. However, benefits related to the number of qualifying years can increase willingness to work before claiming the assistance. The primary effect of these benefits is that they can reduce child poverty and that has an indirect employment effect: reducing future labour market disadvantages (this is a strong effect but it develops over a very long term, see for example *Carneiro and Heckman* [2003]). The impact of cash benefits on the labour market was discussed by *Bálint and Köllő* (2008). They found that cash benefits had a negative impact on the employment prospects of mothers returning to work and they also hampered the trend of wage increase that started at the beginning of their career. Non-cash assistance, on the contrary, improves labour market prospects for women.

Situation in September 2010. The main child care provisions can be grouped into three categories (*Table 4*). The first group includes benefits that provide an income replacement during times when labour market participation is limited: these include the maternity benefit, child care allowance (depending on the legislation in force), child care pay and child care assistance. The second group includes assistance that rewards labour market participation: these are different forms of tax credits and reliefs. The third group includes assistance targeted at families that are not linked to labour market status: such as the family benefit and the child care allowance (depending on the legislation in force). Maternity benefit and child care pay are the highest amount, while child care allowance, child care assistance and family benefit are paid at lower rates but for a longer period. Their primary target group is expectant mothers, mothers who have just given birth or are caring for children, therefore they are mainly affected by their secondary effects (except for the family benefit).⁹ The amount and importance of tax credits is limited but they have a wider target group that includes fathers and mothers as well.

The most important child care service is nursery provision for which all children under three are eligible however its availability is extremely limited.

Changes between September 2010 and September 2011. There were various changes in the system of child care assistance after January 1, 2011. Firstly, child care allowance and child care assistance regulations that entered into force on May 1, 2010 were abolished with a retroactive effect and previous benefit periods were restored. These benefits did not rise in 2011 compared to their 2010-level. The family benefit was split into two benefits: child benefit and schooling benefit (for children of compulsory school age). In the latter case if parents fail to make sure that their children receive school education and at-

Can reduce child poverty and future labour market disadvantages

Parental leave and family benefits

⁹ Both child care allowance and child care pay can be claimed by fathers and grandparents, although their take-up is minimal: according to the CSO's Labour Force Survey 2.4% of people receiving child care allowance and 1.2% of recipients of child care pay were men.

The amount of benefits will not increase, tax credits given a more prominent role

tend school regularly they might lose their eligibility for the benefit. A strong emphasis was placed on tax credits and reliefs that increased significantly more than other provisions. There were no changes in the availability or eligibility for nursery provision. The possibility to take up paid work while receiving child care allowance was restricted to 30 hours per week or full-time if working from home, while people claiming child care assistance can now work up to 30 hours compared to 20 hours previously.

Table 4: Main child care provisions in September 2010

	Maternity assistance	Maternity benefit	Child care allowance	Child care pay	Child care assistance	Family benefit	Family tax credit	Nursery
Entitlement conditions	Legal residency in Hungary, at least four ante-natal care visits	Previous contribution payment: 180 days within the two years before claiming the benefit for claims before May 1, 2010, 365 days for claims after that. Paid during maternity leave, up to 168 days	Universal entitlement after May 1, 2010, paid up to the second birthday of the child, previously until the third birthday	Previous contribution payment: 180 days within the two years before claiming the benefit for claims before May 1, 2010, 365 days for claims after that.	Universal entitlement, for parents caring for 3 or more children. As of May 1, 2010 it can be claimed from the second (previously third) birthday of the youngest child until the child reaches 8	Caring for a child or young person – own or adopted – aged under 20	Caring for at least three children, taxable band dependent on number of children (three children: 8,580,7000 forints; seven children: 12,400,000 forints)	Universal entitlement for children aged 0–3; eligibility: mother is not claiming child care pay and there are places available locally. Local councils with more than 10,000 inhabitants are obliged to provide nursery
Rate	One-off flat rate payment, 225% of the minimum state pension (64,125 forints in 2010)	Paid according to rules on sick leave but only if there is a loss of income. Seventy per cent of the daily average wage in the year before the child is born; no upper limit applies	At the rate of minimum state pension (28,500 forints in 2010 and 2011). Flat-rate, does not depend on the number of children except for twins.	Seventy per cent of the daily average wage in the year before the child is born, up to twice the statutory minimum wage	At the rate of minimum state pension (28,500 forints in 2010 and 2011). Flat-rate, does not depend on the number of children except for twins	The amount increases with the number of children. 12,200 forints a month for one child, 14,800 forints per child for three or more children. Higher amounts for children with long term condition and single parents.	4,000 forints per child and per month, amount dependent on total income	–
Other advantages	–	Qualifies for social security benefits	Qualifies for social security benefits	Qualifies for social security benefits	Qualifies for social security benefits	–	–	–
Work permitted	Not applicable	Not permitted	Not permitted until the first birthday of child, no restrictions afterwards	Not permitted except for work under intellectual property rights	Up to 20 hours per week or no restriction if working from home	Not applicable	Not applicable (but it can only be used if paying income tax)	Due to limited capacities it is often a <i>de facto</i> requirement and proof of contract of employment is required
Other conditions		Various exemptions, special conditions	–	–	–	–	–	–
Related expenses		–	–	–	–	Non-taxable but taken into account when calculating taxable income	–	Financial contribution often required from parents

Table 5: Main child care provisions in September 2011

	Maternity assistance	Maternity benefit	Child care allowance	Child care pay	Child care assistance	Family benefit	Family tax credit	Nursery
Entitlement conditions	Legal residency in Hungary, at least four antenatal care visits	Previous contribution payment: 365 days within the two years before claiming the benefit. Paid during maternity leave, up to 168 days.	Universal entitlement, until the child reaches 3	Previous contribution payment: 365 days within the two years before claiming the benefit	Universal entitlement, for parents caring for 3 or more children, from the third birthday of the youngest child until the child reaches 8.	Caring for a child or young person – own or adopted – aged under 20	Caring for a child or children	Universal entitlement for children aged 0–3; eligibility: mother is not claiming child care pay and there are places available locally. Local councils with more than 10,000 inhabitants are obliged to provide nursery
Rate	One-off flat rate payment, 225% of the minimum state pension (64,125 forints in 2011)	Paid according to rules on sick leave but only if there is a loss of income. Seventy per cent of the daily average wage in the year before the child is born; no upper limit applies.	At the rate of minimum state pension (28,500 forints in 2010 and 2011). Flat-rate, does not depend on the number of children except for twins.	Seventy per cent of the daily average wage in the year before the child is born, up to twice the statutory minimum wage	At the rate of minimum state pension (28,500 forints in 2010 and 2011). Flat-rate, does not depend on the number of children except for twins.	The amount increases with the number of children. 12,200 forints a month for one child, 14,800 forints per child for three or more children. Higher amounts for children with long term condition and single parents.	Amount can be – written-off from taxable income: first and second child 62,500 forints per child per month, from third child upwards 206,250 forints per month	
Other advantages	–	Qualifies for social security benefits	Qualifies for social security benefits	Qualifies for social security benefits	Qualifies for social security benefits	–	–	–
Work permitted	Not applicable	Not permitted	Not permitted until the first birthday of child, up to 30 hours after that or no restrictions if working from home	Not permitted except for work under intellectual property rights	Up to 30 hours per week or no restriction if working from home		Not applicable (but it can only be used if paying income tax)	Due to limited capacities it is often a <i>de facto</i> requirement and proof of contract of employment is required
Other conditions	–	Various exemptions, special conditions				For children of compulsory school age the benefit can be withdrawn or paid in kind if fails to attend school		–
Related expenses	–	Taxable but no contribution payment is required	–	–	–	Non-taxable but taken into account when calculating taxable income	–	Financial contribution often required from parents

Main legislation

Social assistance is set out in Act 3 of 1993, taxes in Act 117 of 1995, contributions and qualifying for pensions in Act 80 of 1997. For child care provisions see Act 31 of 1997, for family supports see Act 84 of 1998.

New legislation: Act 171 of 2010.

12. Contracts of employment, labour law

Flexible regulation according to OECD's Employment Protection Index

What is the impact on employment? The impact of labour law can range from simply defining employment relationships to shifting the balance of bargaining power on the labour market. A legal framework that gives strong rights to employees over wage settlement, not only protects from employers but also provides more security for workers who are more embedded in the structures of the labour market. A more permissive regulation on the other hand favours “outsiders” and employers. Labour law does not extend to illegal employment so stricter conditions might push workers who are unwilling to commit themselves to a formal employment relationship towards undeclared work. Hungary ranked 11th on the OECD's employment protection index: with a score of 1.82 compared to the OECD average of 2.11, Poland's 2.01, Slovakia's 2.45 and the Czech Republic's 3.0 value (lower scores indicating more flexibility). We have no information about the impact of the legal environment but we can draw some conclusions based on the behaviour of the labour market – *Kőrösi* (2005) suggested that its flexibility was average by international comparison. *Horváth and Szalai* (2008) analysed the flexibility of the Hungarian labour market and they concluded that inflexibility was not the result of the institutional structure but the low probability of transition between labour market statuses and weaknesses of institutions supporting this transition.

Separate legislation for the business sector and the public sector

Situation in September 2010. Labour law is highly complex; its discussion would go beyond the scope of this chapter. One of the main features of labour law is that a different set of rules apply for private and public sector employment – and within this for public sector workers and civil servants. These rules cover the majority of lawfully employed workers: out of the 3.781 million workers in 2010, 3,317 worked 60 hours or more a week (CSO Stadat), the majority of them all year round. Various studies put the extent of undeclared work at around 15% of total employment (e.g. *Elek et al.*, 2009) and the protection of labour law does not extend to them. At the same time in some groups of workers the number of seasonal workers, workers with second jobs and domestic workers is above the average and atypical forms of employment, part time work and agency work are increasing rapidly. Simplified employment is a distinct legal category.

Reviewing the regulation of simplified employment

Changes between September 2010 and September 2011. The government reviewed the regulation of simplified employment. The use of this form of employment is limited by activity, frequency of work and size of the employer. In the case of simplified employment the general rules on working time, paid

leave, agency work, sick leave and reference period. However according to the reviewed regulation pay should be no less than the statutory minimum wage – this was not explicit in the previous regulation. The amendment of the labour code entered into force in the first half of 2011. It is worth highlighting some of the changes: the default length of the probationary period is 30 days, this can be extended to three months in a contract of employment or to six months in a collective agreement; new rules allow more flexibility in setting the weekly reference period and without changes in the wage. Paid leave became more flexible and temporary agency work was defined more clearly emphasising the temporary nature of work and the obligation of equal pay for work of equal value. There were also changes in the strike law that created an obligation to provide a satisfactory service during strikes in sectors of key importance. This includes utility companies and public transport companies.

It is very important because it will probably affect many people that special rules apply for public works participants in a number of areas as of September 1, 2011 as a result of the integration of public works into labour market and social provisions. Notably permanent contracts of employment will no longer be the standard in public works however there is no probationary period and assistance should be offered with travel to work or accommodation if further away.

Special rules for public works programs

Main legislation

Act 22 of 1992 (Labour Code), Act 33 of 1992 on the Legal Status of Public Sector Workers, Act 23 of 1992 on the Legal Status of Civil Servants.

New legislation: Act 75 of 2010 on Simplified Employment and Government regulation no. 223/2010 on the Implementing of Regulations of the Act; Agriculture: Government regulation no. 218/2011 on Simplified Employment; Act 178 of 2011 on Strike Action; Act 105 of 2011 on the Regulatory Alignment of Certain Labour Legislation and Other Related Acts.

13. Old age and disability pension – disability assistance

Old age pension

What is the impact on employment? Pensions, similarly to benefits, provide an income without actual work for eligible people and thus depending on its elasticity reduces labour supply. The extent of the reduction in labour supply depends, among other things, on the size of the pension (or often its relative size to potential earnings from work). The timing of this effect depends on the entitlement conditions, mainly the pension age. If the pension age is low from a labour market perspective and people can retire without a penalty (malus) then the pension system might cause disruptions: if people can retire “too early” and with “too favourable” conditions then people who are otherwise capable of working will exit the labour market. Withdrawal from the labour market might be encouraged by a secure income without work or there might be legal restrictions on work.

“Too early” and “too good” conditions encourage the early exit of people who are capable of working

The link between pension contribution and actual pension should be clear

Three pillars: pay as you go public, compulsory private pension and voluntary private pension

An indirect labour market effect might be that old age security might reduce willingness to save. If there is no substantive relationship between the amount of pension contributions and the size of pension (or the worker does not see this relationship), then the worker might try to avoid the burden of contribution payment and work illegally or if it is a secondary income, finds legal alternatives, for example operates as a business. Finally, some special pension arrangements can have further effects: it can be part of the remuneration package offered to the worker and provide further incentives to accept inconveniences of certain jobs and thus facilitate the filling of these positions. *Cseres-Gergely* (2008) analysed the labour market effect of the main characteristics of the pension system in Hungary and found that both the availability and the replacement rate of pensions had a significant impact on the likelihood of retirement.

Situation in September 2010. During most of 2010 the pension system comprised of three “pillars”: the first pillar the pay-as-you-go state pillar, the second pillar the compulsory private pension fund and the third pillar the voluntary private pension fund. Contribution to the first two pillars was obligatory; participation in the third pillar as well as the amount of contribution was voluntary. Compulsory pension contributions have been discussed in the section on Taxation above. The increase of pensions during payment is set by the government based on a combination of price and wage increases. The rate of increase was set in 2010 as the average of consumer price index and wage increase if the growth of GDP is 3.5% or above. However, if the growth rate of GDP is smaller than this, pensions are increased according to the consumer price index. Compulsory private pensions have not yet been paid and annual increases of private pensions are not regulated.

People are entitled to old age pension if they reach a certain age and have enough qualifying years. The starting pension is calculated according to a formula that is primarily based on post-1988 employment history. There are no eligibility conditions attached to the payment of old age pensions. Pre-pensions can be paid at a reduced rate if the claimant does not have enough qualifying years. Nevertheless the regulations set fairly general conditions and as a result the majority of workers retire before the nominal state pension age without reducing the amount of their pension. People receiving pre-pension are only permitted a limited amount of work: if their annual earnings exceed 18 times the statutory minimum wage the payment of pension must be suspended until they reach state pension age.

Different from the pre-pension is the pre-retirement pension that can be paid to people in hazardous or dangerous jobs. For these workers there are job-specific pension ages that should not be considered as exceptions but are part of their work contract.

Changes between September 2010 and September 2011. There were fundamental changes in the pension system in the autumn of 2010 and these were

Two pillars instead of three

particularly unfavourable for people contributing to compulsory private pension funds. As of January 1, 2011 members of these funds have been obligated to pay the full contribution to the state pension pillar but this does not count as a qualifying period for them. Although they were given the opportunity to leave the private pension fund and return to the state-only system where their contributions are used in full. As a result of these changes the second pillar basically ceased to exist, there were only about 100,000 members left and no new membership is possible. As of January 2011 women can retire regardless of their age if they have enough qualifying years and no longer pay social security contributions. The number of qualifying years required to retire is reduced by one year for five children and by a further year for each additional child up to seven years.

Main legislation

Act 81 of 1997 on social security pensions.

New legislation: Act 154 of 2010 on Changes in the Second Pillar; Act 170 of 2010 on the Amendment of Certain Pension Related Acts and Related Laws (this includes changes in pension entitlement for women). Government regulation no. 353/2010 on Pension and Accident-Related Pension Increases.

On-line resources: <http://www.onyf.hu>.

Disability pension – disability provision

What is the impact on employment? Disability pension, similarly to old age pension and benefits provide an income without work and thus reduce labour supply as well as the number of hours worked. Its indirect effects are similar to those of the old age pension but probably more limited because it is less likely to happen. The size of its effect strongly depends on its availability and amount. Scharle (2008) looked at the relationship between the number of disability pension claims and the labour market situation using geographical data and found a significant negative relationship between the employment rate and the number of disability pension claims.

Situation in September 2010. People are entitled to disability pension if they have enough qualifying years and lost more than 79% of their work capacity, or between 50 and 79% of their work capacity and they cannot be rehabilitated. For accident-related disability pensions previous contribution payment is not necessary. A further condition is that claimants are out of work or if they work they are earning less than twice the disability pension or less than the statutory minimum wage. The starting pension is based on the length of the qualifying period. Disability pensions are increased in the same manner as the old age pensions. If the re-assessment of disability finds that the loss of work capacity is less than 79%, entitlement to disability pension stops.

People with a loss of work capacity between 50–79% are eligible for rehabilitation allowance for the length of rehabilitation – up to three years. The

amount of this is 120% of the disability pension the claimant would be entitled to, and no less than 120% of the minimum rate of disability pension. To be eligible for the allowance people have to participate in vocational rehabilitation and cooperate with the employment service.

Changes between September 2010 and September 2011. There were no significant changes in disability pensions in the studied period.

Main legislation

Act 84 of 2007 on Rehabilitation Contribution, Government regulation no. 353/2010 on Pension and Accident-Related Pension Increases.

On-line resources: <http://www.orszi.hu/index.php?ID=76>

14. *Wage bargaining and wage regulation, interest representation*

What is the impact on employment? The impact of wage bargaining and wage regulation heavily depends on their characteristics (the level of coverage: national, sectoral or company-level collective agreement), whether it facilitates or hinders the adjustment of wages to the equilibrium value – defined by other factors – and also the structure of the national economy and its level of integration into the global economy. Therefore there is no one optimum model (Calmfors, 1993).

A special institution of wage regulation is the statutory or contractual minimum wage which is the lowest wage an employee or specific groups of employees must be paid. The employment effect of this is usually negative but it can be neutral if the employer has considerable market strength (Manning, 2003). The impact of wage setting on employment has not been explored in Hungary. The effect of wage coordination on employment during the economic crisis was briefly discussed by Köllő (2011). The impact of the statutory minimum wage on employment was analysed by Köllő (2001), Reizer (2011) and relevant results are also reported by Kézdi and Kónya (2009).

Situation in September 2010. There is a dual system of wage bargaining in Hungary. Public sector pay is defined by a separate pay scale in the annual state budget. Wages in the business sector – apart from the statutory minimum wage mentioned above – are decided freely through decentralised negotiations. The lowest amount of pay is limited by the statutory minimum wage set at different levels for skilled and unskilled workers since 2006. The minimum wage was negotiated in the tri-partite National Interest Conciliation Council (NICC) with representatives of the government, employers and employees before January 1, 2011. Union membership is low in Hungary and instead of the sectoral wage negotiations, common in some parts of Western Europe (although there are some of these in Hungary as well), wages are influenced predominately by company level collective agreements. The impact of these on wages however, is not significant (Neumann, 2001), and is more common in dense markets and state owned companies (Kertesi and Köllő 2003).

Different rates of minimum wage for different groups of employees

Tripartite National Interest Conciliation Council

Changes between September 2010 and September 2011. There were two important changes in the system of wage bargaining in 2010. First, the National Interest Conciliation Council ceased to exist and was replaced by the National Economic and Social Council. This replaces tri-partite negotiations with a multi-partite system that includes churches, chambers and representatives of non-governmental organisations. Second, the minimum wage is no longer decided in negotiations but is set by the government. Furthermore there is a new, indirect institution of government intervention: employers that do not compensate their workers (earning up to 300,000 forints a month) for any decline in net wages after changes in taxation will be excluded from public procurements and subsidies for two years. Another important change is that the statutory minimum wage does not apply to public works participants but is set separately by the government. Its amount was 57,000 forints a month in 2011, 73% of the statutory minimum wage.

Main legislation

Act 22 of 1992 on the Labour Code, Act 7 of 1989 on Strike Action, Act 73 of 2009 on the National Interest Conciliation Council, Act 74 of 2009 on Sectoral Dialogue Committees and Meso-Level Social Dialogue.

New legislation: Act 93 of 2011 on the National Economic and Social Council, Government regulation no. 337/2010 on the Statutory Minimum Wage, Government regulation no. 352/2010 on the Salary Compensation of Public Sector Workers, Act 99 of 2011 on Amending Certain Laws to Encourage the Wage Increase of Low-Paid Workers, Act 106 of 2011 on Public Works and the Amendment of Public Works Related Regulations, Government regulation no. 170/2011 on Wage Setting and Statutory Minimum Wage in Public Works, Act 178 of 2011 on the Amendment of Act 7 of 1989 on Strike Action.

On-line resources: <http://www.liganet.hu/>

Multi-partite National
Economic and Social
Council

15. Measures related to migration and mobility

What is the impact on employment? The primary effect of internal, external and temporary mobility, migration and commuting is that they influence the geographical distribution of labour. Its impact on employment is strongly related to the velocity of capital mobility and price adjustment and flexibility. If this is fast then areas with a high migration output would shortly become attractive for capital investment and relocation of workers. If this is slow, then increased mobility can preserve the disadvantaged situation of these areas. International experience suggests that if this compensating mechanism is very slow and changes that could substantially reduce existing disparities can be measured in decades (Cseres-Gergely, 2003, Hárs, 2011). Our understanding of the recent relationship between mobility and the labour market in Hungary is very limited, but it is likely that the direction and extent of mobility in the 1990s was influenced by economic incentives (local wages and unemploy-

Limited mobility

ment (Cseres-Gergely, 2005, 2002). There has been no evaluation of mobility schemes to date.

Situation in September 2010. Schemes designed to influence mobility are typically small scale and provide assistance for travel to work arrangements, living costs and recruitment of workers. There are no special programs to support international labour mobility; the information system supporting labour mobility within Europe has been discussed under section 1 on labour market services. Citizens of the European Economic Area and recognised refugees do not need a work permit to take up employment in Hungary, however they need to register themselves at the local job centre.¹⁰ Others can be employed with a valid work permit for which the first step is the publication of the vacancies. There is a simplified procedure to renew existing work permits.

Changes between September 2010 and September 2011. The citizens of Hungary can take up employment in Austria and Germany without any restrictions as of May 1, 2011. The EU Blue Card can be used in Hungary from 2011 – this entitles skilled migrants from outside the EU to live and work in a Member State under certain conditions.

Mobility can be enhanced by changes in the housing assistance that can now be used to pay for rent as well rather than for winter fuel only.

Main legislation

Act 4 of 1991 on Promoting Employment and Unemployment Benefits, Government Regulation no. 39/1998. (04. 03) on Supports to Reduce the Cost of Travel to Work for Workers, and Government regulation no. 355/2007 on the Recruitment of Workers and Transitional Provisions on the Free Movement of Workers in Hungary, Government regulation no. 355/2009 on the Employment of Third Country Nationals in the Republic of Hungary, and Ministry of Social Affairs and Employment (MoSAE) regulation no. 16/2010 on Issuing Work Permits for Third Country Nationals in Hungary.

New legislation: Government regulation no. 168/2011 on Issuing the EU Blue Card and the Amendment of Certain Migration-Related Government Regulations.

16. Management, funding and evaluation of employment policy

The management of employment policy sets the policy objectives, elaborates programs, monitors implementation and coordinates evaluation. An important part of this is the allocation of funding to policy measures and deciding about the evaluation of policies – whether it should be continuous monitoring or pre- or post-evaluations.

What is the impact on employment? Effective employment policy that also takes into account the economic context can increase employment and reduce unemployment contributing to the growth of the economy. To ensure that policy interventions are effective they need to be based on the understanding

¹⁰ But this often does not happen in the absence of sanctions.

of the existing situation, the potential impact of possible interventions needs to be considered and the appropriate interventions need to be selected and implemented. The relationship between policy making and labour market outcomes has not been investigated empirically.

Situation in September 2010. The top level management of Hungarian employment policy was the state secretariat responsible for employment policy within the Ministry for National Economy. The state secretariat covers two main policy areas: vocational and adult education and training (served by a department and a ministerial commissioner) and employment policy. This field is served by the department of employment strategy and methods and a department responsible for the management of labour market programs and the Labour Market Fund. These units support the implementation of political decisions and prepare policy proposals as required. They are responsible for the regulation of employment programs and the policy management of SROP priorities 1 and 2. They also managed certain public works programs (until June 2011). The Public Employment Service with its regional job centres, local job offices and the central Employment and Social Office supported their work. The employment service had a dual aim: the administration of unemployment benefits and the provision of services to eligible job seekers on the one hand, and the implementation of employment policy at the local level on the other. The activities of employment policy were supported by various agencies such as the National Family- and Social Affairs Institute.

The system was entirely financed from the Labour Market Fund in 2010 that provided funding for the majority of employment policy measures.

Changes between September 2010 and September 2011. There were a number of important changes in this period. The name of the PES changed to National Employment Service (NES) and the Employment and Social Office is now called the Employment Office. The re-structuring of regional job centres took place in two phases. First they were divided into priority and non-priority county job centres (the 170 local job offices were temporarily put under the management of the latter) and merged into county government offices. As of October 1, 2010 county offices were again responsible for the management of the local job offices in their own catchment area. The role and possibility of the Employment Office to influence policy making and propose measures increased according to its new statute.

With the launch of the new public works program the earlier distinction between different types of public works schemes ceased to exist from July 1, 2011. The Ministry of Interior became responsible for this program, although the local administration is carried out by the employment service. The allocation of funding to employment policy within the state budget changed significantly: a number of items are no longer funded by the Labour Market Fund and as a result of the re-structuring the NES no longer has its own budget – except for

*Employment policy
institutions*

Organisational changes

*Single public works pro-
gram under the manage-
ment of the Ministry of
Interior*

Major changes in funding

the Employment Office: the budget of job centres and offices were merged into the budget of government offices.

The government adopted the action plan for the new SROP programs that sets out the most important components of employment policy for the coming years with hundreds of millions of forints allocated to them.

On January 1, 2011 the Ecostat Government Centre for Impact Assessment was established with the objective of assisting government policy making in all areas with analytical services, ex ante and ex post program evaluations.

As of January 1, the name of the National Rehabilitation and Social Assessment Institute was changed to the National Rehabilitation and Social Office. The new regulation expanded the scope of activities and authority of the office. The Office is a forensic and rehabilitation assessment authority, social authority and is also responsible for the inspection of services.

There were changes in the government's labour market research structure: the National Family and Social Affairs Institute is no longer involved in labour market research and labour market researchers were transferred to the Employment Office.

Main legislation

Government regulation no. 1250/2010 on the Draft National Reform Program for the Implementation of Europe 2020 Strategy and the Preparation of the Final Action Plan, Government regulation no. 1114/2011 on the National Reform Program of Hungary and its Implementation, Act 153 of 2010 on the Amendment of Certain Acts in Preparation for the 2011 Budget, Act 169 of 2010 on the 2011 Budget, Government regulation no. 357/2010 on the Amendment of Certain Government Regulations on Social Services in Relation to the Amendment of Act 171 of 2010, Government decree no. 1246/2011 on SROP Priority Project 1.1.2 "Improving the employability of disadvantaged people (decentralised programs in Convergence regions)", Government decree no. 1148/2011 on Government Measures in Relation to the Introduction of Electronic Exchange of Data Based on EC regulation no. 883/2004 on the Coordination of Social Security Systems, Government Regulation no. 331/2010 on the National Rehabilitation and Social Office, 332/2010. (27. 12) Amending Certain Government regulations in Relation to the Activities of the National Rehabilitation and Social Office.

REFERENCES

- BAKOS, PÉTER, BENCZÚR, PÉTER AND BENEDEK, DÓRA (2008): Az adóköteles jövedelem rugalmassága. Becslés és egy egykulcsos adórendszerre vonatkozó számítás a 2005. évi magyar adóváltozások alapján [The Elasticity of Taxable Income: Estimates and Flat Tax Predictions using the Hungarian Tax Changes in 2005]. *Közgazdasági Szemle*, Vol. 55. No. 9. pp. 733–762.
- BÁLINT, MÓNICA AND KÖLLŐ, JÁNOS (2008): A gyermeknevelési támogatások munkaerő-piaci hatásai [The labour market effect of family benefits]. *Esély*, Vol. 19. No. 1. pp. 3–27.
- BUDAPEST INTÉZET AND HÉTFA (2011): A közcélú foglalkoztatás kibővülésének célzottsága, igénybevétele és hatása a tartós munkanélküliségre. Kutatási jelentés, 2011. augusztus 30. [The expansion of public works programmes: targeting, take-up and impact on long-term unemployment. Research report, August 30, 2011] Project manager: Scharle, Ágota, Budapest Intézet and Hétfa, Budapest, http://www.budapestinstitute.eu/kutatas/prj/A_kozcelu_foglalkoztatasi_hatekony_saga.
- CALMFORS, L. (1993): Centralisation of Wage Bargaining and Macroeconomic Performance: A Survey. OECD Economics Department Working Papers, 131. OECD Publishing.
- CALMFORS, L. (2004): The Limits of Activation in Active Labour Market Policies. International Reform Monitor Conference on Activation without Perspective? Increasing Employment Opportunities for the Low-Skilled. Bertelsmann Foundation, március 31, Berlin, <http://people.su.se/~calmf/berlin3.pdf>.
- CARD, D., KLUVE, J. AND WEBER, A. (2010): Active Labour Market Policy Evaluations: A Meta-Analysis. *The Economic Journal*, Vol. 120. No. 548. F452–F477.
- CARNEIRO, P.–HECKMAN, J. J. (2003): Human Capital Policy. SSRN eLibrary. <http://ssrn.com/paper=434544>.
- CSERES-GERGELY, ZSOMBOR (2002): Residential Mobility, Migration and Economic Incentives – the Case of Hungary in 1990–1999. BWP, 2002/7.
- CSERES-GERGELY, ZSOMBOR (2005): County to county migration and labour market conditions in Hungary between 1994 and 2002. *Zeitschrift für ArbeitsmarktForschung*, Vol. 37. No. 4. pp. 425–436.
- CSERES-GERGELY, ZSOMBOR (2008): Incentive effects in the pension system of Hungary. In: Fazekas Károly–Cseres-Gergely Zsombor–Scharle Ágota (eds.): *The Hungarian labour market. Review and analysis*, 2008. MTA KTI–OFA, Budapest, pp. 103–115. http://econ.core.hu/file/download/mt/4_infocus.pdf
- CSERES-GERGELY, ZSOMBOR AND SCHARLE, ÁGOTA (2008): Social welfare provision, labour supply. In: Fazekas, Károly, Cseres-Gergely, Zsombor and Scharle, Ágota (eds.): *The Hungarian labour market. Review and analysis*, 2008. IE HAS and National Employment Foundation, Budapest, pp. 33–49. http://econ.core.hu/file/download/mt/4_infocus.pdf.
- CSERES-GERGELY ZSOMBOR, RESZKETŐ PETRA AND SCHARLE ÁGOTA–VÁRADI BALÁZS (2009): Balta helyett metszőolló! Lépések egy fenntartható jóléti rendszer felé [Secateurs instead of axe! Steps towards a sustainable welfare system]. Budapest Intézet. http://www.budapestinstitute.eu/dontestamogatas/prj/Lepesek_egy_fenntarthato_joleti_rendszer_fele.
- CSERES-GERGELY, ZSOMBOR AND SCHARLE, ÁGOTA (2010): Az Állami Foglalkoztatási Szolgálat modernizációjának értékelése [Evaluation of the modernisation of ÁFSZ (PES)]. Budapest Intézet, Budapest, http://www.budapestinstitute.eu/uploads/BI_AFSZ_modernizacio_ertekeles_100705.pdf.
- CSOBA, JUDIT, NAGY, ZITA ÉVA AND SZABÓ, FANNI (2010): Aktív eszközök, munkaerő-piaci programok kontrollcsoportos, többváltozós értékelése [Multivariate, controlled evaluations of active labour market policies and programmes]. Manuscript, http://mukutir.telco-system.hu/kutat_dir/499/aktiv_eszkozok_tobbaltozos_ertekelese.doc.
- ELEK, PÉTER, SCHARLE, ÁGOTA, SZABÓ, BÁLINT AND SZABÓ, PÉTER ANDRÁS (2009): A feketefoglalkoztatás mértéke Magyarországon [The extent of undeclared employment in Hungary]. In: Semjén András–Tóth István János (eds.): *Rejtett gazdaság [Hidden economy]*. KTI Könyvek, 11. MTA KTI, Budapest, http://www.econ.core.hu/file/download/ktik11/ktik11_08_feketefoglalkoztatasi.pdf.
- EUROPEAN COMMISSION (2005): Coverage and Structure of the Labour Market Reform (LABREF) Database. European Commission, Directorate-General for Economic and Financial Affairs (ECFIN), http://ec.europa.eu/economy_finance/db_indicators/labref/documents/guide_en.pdf.
- EUROPEAN COMMISSION (2006): Labour Market Policy Database Methodology – revision of June 2006. European Commission Eurostat, Directorate F: Social Statistics and information statistics Unit F-2: Labour market statistics. http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-BF-06-003/EN/KS-BF-06-003-EN.PDF.
- GALASI, PÉTER, LÁZÁR, GYÖRGY AND NAGY, GYULA (1999): Az aktív Az aktív foglalkoztatási programok

- eredményességét meghatározó tényezők meghatározó tényezők [Factors associated with the effectiveness of active labour market programs]. Budapesti Munkagazdaságtani Füzetek 1999/4. <http://mek.niif.hu/01500/01514/01514.pdf>.
- GALASI, PÉTER AND NAGY, GYULA (2002): Járadékjogosultsági időtartam és elhelyezkedés [Benefit-entitlement periods and re-employment]. *Közgazdasági Szemle*, 49. No. 2. pp. 126–142.
- HÁRS, ÁGNES (2001): Munkakereslet és -kínálat közelítése – a migráció szerepe [Aligning labour demand and supply – the role of migration]. Manuscript.
- HORVÁTH, HEDVIG AND SZALAI, ZOLTÁN (2008): Labour Market Institutions in Hungary with a Focus on Wage and Employment Flexibility (ECB WDN Institutional Project). MNB Occasional Paper, 77.
- HUOMIET, PÉTER AND KÉZDI, GÁBOR (2008): Az aktív munkaerő-piaci programok nemzetközi tapasztalatai [International experiences of active labour market programmes. Governance, Public Finances, Regulation]. *Kormányzás, Közpénzügyek, Szabályozás* 3. No. 1. pp. 3–37. http://www.kormanyzas.hu/081/01_Huomiet-Kezdi.pdf.
- KERTESI, GÁBOR AND KÖLLŐ, JÁNOS (2002): Economic transformation and the revaluation of human capital – Hungary, 1986–1999. In: *de Grip, A. – Van Loo J. – Mayhew, K.* (eds.): *The Economics of Skills Obsolescence: Theoretical Innovations and Empirical Applications*. 21. pp. 235–273. Research in Labor Economics, JAI Press, Elsevier.
- KERTESI GÁBOR AND KÖLLŐ JÁNOS (2003): Ágazati bérkülönbségek Magyarországon, II. rész. Járadékokon való osztozkodás koncentrált ágazatokban, szakszervezeti aktivitás jelenlétében [Inter-industry wage differences in Hungary, Part 2. Rent-sharing benefits in concentrated industries in the presence of union activity]. *Közgazdasági Szemle*, 50. 12. pp. 1049–1074.
- KÉZDI, GÁBOR AND KÓNYA, ISTVÁN (2009): Wage setting in Hungary: evidence from a firm survey. MNB Bulletin, Vol. 4. No. 3. pp. 20–26. http://english.mnb.hu/Root/Dokumentumtar/ENMNB/Kiadvanyok/mnben_mnbszemle/mnben_mnb_bulletin_oktober_2009/kezdi-konya_2009_okt_en.pdf.
- KLUVE, J. (2010): The effectiveness of European active labor market programs. *Labour Economics* Vol. 17. No. 6. pp. 904–918.
- KÖLLŐ JÁNOS (2001): Hozzájárulás az elmaradt minimálbérvitához [Contribution to the omitted debate on minimum wage]. *Közgazdasági Szemle*, Vol. 48. 12. pp. 1064–1080.
- KÖLLŐ JÁNOS (2011): Employment, unemployment and wages in the first year of the crisis. In: *Fazekas, Károly and Molnár, György* (eds.): *The Hungarian labour market. Review and analysis*, 2011. IE HAS and National Employment Foundation, Budapest, pp. 43–68. http://www.econ.core.hu/file/download/HLM2011/TheHungarianLabourMarket_2011_In_Focus.pdf.
- KÖLLŐ JÁNOS AND NAGY GYULA (1995): Bérek a munkanélküliség előtt és után [Wages before and after unemployment]. *Közgazdasági Szemle*, 23. No. 4. pp. 325–357. o
- KÖRÖSI, GÁBOR (2005): A versenyszféra munkapiacának működése [The jobs market of the business sector]. KTI Könyvek. 4. MTA KTI, Budapest.
- KSH (2009): A munkaerő-piaci politikák (LMP) adatbázisa (módszertan) [Labour market policy database (methods)]. *Statistikai Módszertani Füzetek*, 52. sz. <http://mek.niif.hu/07400/07402/07402.pdf>.
- LAYARD, R., NICKELL, S. AND JACKMAN, R. (1991): *Unemployment: Macroeconomic Performance and the Labour Market*. Oxford University Press.
- MANNING, A. (2003): *Monopsony in Motion: Imperfect Competition in Labor Markets*. Princeton University Press, március 3.
- MARTIN, J. P. AND GRUBB, D. (2001): What Works and for Whom: A Review of OECD Countries' Experiences with Active Labour Market Policies. IFAU, Institute for Labour Market Policy Evaluation, Working Paper, 14. pp. 9–56. http://ideas.repec.org/p/hhs/ifauwp/2001_014.html.
- MICKLEWRIGHT, J. AND NAGY GYULA (2005): Job Search Monitoring and Unemployment Duration in Hungary: Evidence from a Randomised Control Trial. Institute of Economics, Hungarian Academy of Sciences.
- NAGY, GYULA AND MICKLEWRIGHT, JOHN (1995): A magyar munkanélküli segélyrendszer működése [The system of unemployment assistance in Hungary]. In: *Galasi, Péter – Godfrey, M.* (eds.): *Az átmenet foglalkoztatáspolitikája Magyarországon* [The employment policy of transition in Hungary]. Aula, Budapest, pp. 173–229.
- NEUMANN LÁSZLÓ (2001): Van-e munkaerő-piaci hatása a decentralizált kollektív alkunak Magyarországon? [Does decentralised collective bargaining have any impact on the labour market in Hungary?]. *Közgazdasági Szemle*, 48. No. 5. pp. 409–429.
- O'LEARY, C. (1998): Evaluating the Effectiveness of Active Labor Programs in Hungary. Upjohn Institute Technical Reports. Upjohn Institute for Employment Research.
- OECD (2009): *OECD Employment Outlook 2009: Tackling the Jobs Crisis Tackling the jobs crisis*. http://www.oecd.org/site/0,3407,en_21571361_43235365_1_1_1_1_1,00.html.
- REIZER, BALÁZS (2011): A 2006-os „kétszeres minimálbér szabály” hatása a szürkegazdaságra [The impact of “doubling minimum wage” in 2006 on the grey economy]. BWP 2011/4. <http://www.econ.core.hu/file/download/bwp/bwp1104.pdf>.

- SCHARLE, ÁGOTA (2008): A labour market explanation for the rise in disability claims. In: *Fazekas, Károly, Cseres-Gergely, Zsombor and Scharle, Ágota* (eds.): *The Hungarian labour market. Review and analysis, 2008*. IE HAS and National Employment Foundation, Budapest, pp. 91–100. http://econ.core.hu/file/download/mt/4_infocus.pdf.
- SCHARLE ÁGOTA (2011): Foglalkoztatási rehabilitációs jó gyakorlatok Magyarországon [Vocational rehabilitation good practices in Hungary]. Research report (revised version). Budapest Intézet http://www.budapestinstitute.eu/uploads/rehab_jelentes_110410.pdf.
- SCHARLE ÁGOTA, BENCZÚR PÉTER, KÁTAY GÁBOR AND VÁRADI BALÁZS [2010]: Hogyan növelhető az adórendszer hatékonysága? [How to increase the efficiency of the tax system?] *Közpénzügyi Füzetek*, 26.
- SEMJÉN ANDRÁS (1996): A pénzbeli jóléti támogatások ösztönzési hatásai [The incentive effects of cash welfare benefits]. *Közgazdasági Szemle*, 43. No. 10. pp. 841–862.
- WOLFF, J. (2001): *The Hungarian Unemployment Insurance Benefit System and Incentives to Return to Work*. Ludwig-Maximilians Universitaet München. http://epub.ub.uni-muenchen.de/1633/1/paper_253.pdf.